

Business Forms and Profit for a Just Circular Economy:

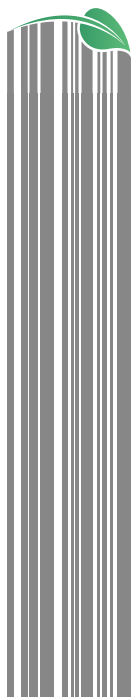
– A study of Sweden's Second-Hand Market



Policy brief 2.1. 2023

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Briefs in this series summarize and make available research on how sustainable consumption can be scaled up from niche to mainstream.



KEY INSIGHTS

There is a marked interest for second-hand clothing among policymakers, firms and consumers and a greater uptake of reuse practices can support the transition to a circular economy. In this policy brief we outline how the Swedish second-hand clothing market is becoming increasingly competitive and profit-oriented due to the entrance of more for-profit firms, therefore challenging the historical dominance not-for-profit firms have had in the second-hand market.

Our results furthermore suggest that not-for-profit firms, compared to for-profit firms, have a greater potential to be part of the transition towards a socially just circular economy. However, our research also reveal that the increasingly commercialized and competitive second-hand clothing market has put pressure on not-for-profit firms to professionalize, which may reduce the social benefits they provide.

Furthermore, the large quantities of clothing that are either incinerated or exported to low-income countries by not-for-profit firms may represent negative social and environmental outcomes. If future circular economies should both be environmentally and socially sustainable there are thus important policy considerations to be made.

Second-hand clothing, business forms, and sustainability

Second-hand consumption is widely highlighted as essential for sustainability and circular economies. However, when it comes to in second-hand markets, it is unclear what the role of business models, and different legal forms of business, might be.

Conventional approaches to sustainable business tend to assume that profitability drives sustainability and vice versa. However, it has been argued that profit often comes at the expense of the environment, workers, other supply chain actors, local communities, and society at large. Therefore, it cannot be assumed that profit naturally aligns with sustainability concerns.

Relationship-to-profit theory explains how the pursuit of private financial gain by for-profit companies drives sustainability crises; and how the pursuit of social benefit by not-for-profit companies can enable sustainable flourishing (Hinton, 2021).

Thus, the legal distinction between for-profit and not-for-profit business types (called *relationship-to-profit*) is important for sustainable consumption. However, this factor is often overlooked in research, policy, and practice

Insights from the second-hand market in Sweden

In the context of the Mistra Sustainable Consumption programme, we have used this theory as the basis for a study of the Swedish second-hand clothing market. Specifically, we explored the following questions: *How have the second-hand clothing market dynamics changed with regards to different business forms, and 2) how might this change influence the transition towards a socially just circular economy?*

The key results from our study are summarized below.

An increasingly competitive second-hand market

For-profit (FP) businesses tend to use quite different strategies compared to their not-for-profit (NFP) counterparts in this sector. Typically, NFPs in the Swedish second-hand market are worker integration enterprises, which means they have the social mission of providing job training and employment for people who have struggled in the job market. Therefore, a key aspect of their operations is to provide quality employment. However, profit-driven firms are more likely to want to keep costs as low as possible, which may lead them to use business models that require as little paid labour as possible. This also frees up more of their revenue for other activities that might increase their sales, such as advertising and website design. Due to this, FP firms in Sweden's second-hand market are able to cut costs and attract customers, presenting a considerable challenge to incumbent NFP actors.

Furthermore, many of the FP companies offer a way for sellers to make money on their web-based platforms. Ordinary people can use these platforms to sell their used clothes for money. This has led to a situation in which the quality of clothes donated to NFP companies is at a risk of declining, because people would rather make money from their higher quality used clothes. This decreased quality

reduces the amount of money that NFPs can make per item.

Another factor that exacerbates the above-mentioned issues is the fact that second-hand consumption is in competition with fast fashion.. Fast fashion textiles tend to be of lower quality, which allows for them to be sold at a lower price. This also leads to a lower quality of donated textiles. In addition to this impact, second-hand clothes have to compete with the low prices of new clothing sold by fast fashion firms.

Further complicating this problem is the fact that it is not uncommon that FP actors in the second-hand market are also involved in selling new textiles. Therefore, they might not be very motivated to replace the consumption of new clothing with the consumption of used clothing, which is a key part of the argument that second-hand markets can contribute to a circular economy: that consumption shifts from new items to used items.

Competition can cause negative social outcomes

Another outcome of a more competitive second-hand clothing market is that NFPs increasingly respond by "professionalizing", which they hope will help them survive in the changing market, but it can lead them to make less of an investment in social benefit and potentially cut costs in less-than-ideal ways. In the short-term, professionalization can reduce the benefits NFPs provide to society but also, potentially, help them remain in the second-hand market over the long-term. Still, a key question is whether those adaptations by NFPs may lead to better overall social outcomes versus if the market had just stayed NFP-dominant.

Moreover, Sweden has seen an increase in people living in relative poverty, a trend that was also noted among the interviewed NFP representatives who saw a growing need for their parent organizations' social work. Therefore, beyond the corporatization of the second-hand market driving the need for profit to be re-invested in the professionalization of the organizations, there are also wider societal structures related to the increasing social inequalities that can push NFPs to grow and generate financial surplus to alleviate these rising inequalities. Rising inequalities also mean that NFPs need to provide more work training opportunities for those outside the labour



market. Over the long-run, if NFPs get competed out of this market there would be risk that the second-hand clothing market in Sweden will increase (rather than decrease) levels of inequality.

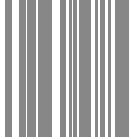
Geographically shifting environmental and social costs

When NFPs collect clothing which are of too low quality to be sold on the Swedish market, this could mean increasing environmental harm caused by these firms, either because of the emissions associated with incineration of clothes or the exportation of clothes to low-income countries which can contribute to waste-related environmental problems in recipient countries when the second-hand clothing is not bought. Concerning the exportation of clothes, it is important to recognize that NFPs typically already export substantial volumes of clothes to low-income countries. However, with NFPs collecting lower quality clothes, due to that people are increasingly turning to commission-based FP platforms, NFP firms may increasingly contribute to shifting environmental problems from the global North to the global South.

Policy recommendations

The findings of our study, coupled with the ongoing discussions on implementing an extended producer responsibility for textiles within the European Union, suggests a number of policy considerations for a more socially sustainable circular economy. They include, but are not limited to:

- Foster increased collaboration between producers of new clothing and NFPs concerning the collection and sorting of used clothing;
- Safeguard and expand the current subsidies and tax cuts NFPs currently enjoy;
- Expand the extended producer responsibility by increasing the fees once a certain volume threshold is reached;
- Implement tax incentives and rebates to foster increased reuse and repair;
- Ban the export of clothing waste as well as the destruction of unsold or excess clothing.



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 **MISTRA**

Stiftelsen för miljöstrategisk forskning

Further reading

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